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Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 PM-05 AGRE-00 OES-07 DOTE-00
FTC-01 OTPE-00 /114 W
----------029406 231643Z /72
R 231411Z JUN 78
FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC 8370
INFO AMEMBASSY ADDIS ABABA
AMEMBASSY DAR ES SALAAM
AMEMBASSY KHARTOUM
AMEMBASSY LONDON
AMEMBASSY LUSAKA
AMEMBASSY MOGADISCIO
AMEMBASSY VICTORIA

LIMITED OFFICIAL USE SECTION 1 OF 2 NAIROBI 9429

E. O. 11652: N/A
TAGS: EFIN, EK
SUBJECT: GOK BUDGET PRESENTATION FOR FY1979

REF: NAIROBI 7812

1. SUMMARY: IN HIS JUNE 15 BUDGET SPEECH, FINANCE MINISTER KIBAKI PRESENTED PARLIAMENT WITH A PROPOSED 1.8 BILLION DOLLAR BUDGET FOR FY1979, A 14 PERCENT INCREASE OVER FY1978 SPENDING. ALTHOUGH EXPENDITURE DETAILS WERE NOT DISCUSSED, EDUCATION AND DEFENSE WILL RECEIVE LARGES SHARES WITH DEFENSE SPENDING AT OR ADOVE LAST YEAR'S 200 MILLION DOLLAR LEVEL. KIBAKI REVIEWED GENERALLY STRONG 1977 PERFORMANCE OF KENYAN ECONOMY BUT WARNED PUBLIC OF IMPACT OF HIGH INFLATION RATE AND
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IMPENDING BALANCE OF PAYMENTS DIFFICULTIES. HE DID NOT, HOWEVER, PRESENT ANY MAJOR PROPOSALS FOR ADDRESSING PROBLEMS. NEW TAXES ON BEER, PETROL, CARS, AND CIGARETTES WERE PROPOSED AND IMPORT DUTIES WILL BE RAISED ON SOME ITEMS AND LOWERED ON OTHERS. KIBAKI PROPOSED REFORMS WHICH WOULD SIMPLIFY AND CONSOLIDATE EXISTING TAX AND FISCAL LEGISLATION AND ANNOUNCED PROPOSALS WHICH WILL

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RESTRICT OPERATIONS OF FOREIGN INSURANCE COMPANIES
IN KENYA. OVERALL BUDGET DEFICIT OF 100 MILLION DOLLARS
IS PROJECTED TO BE FINANCED FROM EXTERNAL ASSISTANCE
AND BORROWING FROM LOCAL COMMERCIAL SOURCES. BUDGET
HAS BEEN GENERALLY WELL RECEIVED BUT CRITICIZED FOR ITS
LACK OF PROPOSALS TO DEAL WITH THE ECONOMIC DIFFICULTIES
AND BALANCE OF PAYMENTS CONSTRAINTS KENYA WILL BE FACING
IN THE NEAR FUTURE. END SUMMARY.

2. ON JUNE 15 THE GOK MINISTER FOR FINANCE AND PLANNING,
MWAI KIBAKI, PRESENTED THE FISCAL 1979 BUDGET BEFORE
THE NATIONAL ASSEMBLY. THE BUDGET CONTAINED FEW SURPRISES
AND IS REFORMIST RATHER THAN RADICAL IN ITS PROPOSALS.
KIBAKI RECOMMENDED TOTAL EXPENDITURES OF 1.8 BILLION
DOLLARS. RECURRENT BUDGET OF 1.15 BILLION DOLLARS (OF
WHICH APPROXIMATELY 200 MILLION DOLLARS ALLOCATED TO
CONSOLIDATED FUND SERVICES FOR DEBT RETIREMENT) WAS
RECOMMENDED. DEVELOPMENT EXPENDITURES OF 665 MILLION
DOLLARS WERE PROPOSED IN BUDGET. TOTAL BUDGET REPRESENTS
INCREASE OF 14 PERCENT OVER FY1978 EXPENDITURES, WHICH
IS JUST KEEPING UP WITH CURRENT INFLATION RATE IN KENYA.

3. DETAILS OF EXPENDITURE ITEMS HAVE NOT YET BEEN
RELEASED. HOWEVER, TREASURY HAS PROVIDED US WITH SOME
OF THE MINISTRY ALLOCATIONS. EDUCATION, AT 240 MILLION
DOLLARS, WILL RECEIVE LARGEST PORTION OF RECURRENT BUDGET.
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AS INDICATED IN REFTEL, DEFENSE EXPENDITURES WILL BE
APPROXIMATELY THE SAME AS LAST YEAR. ALLOCATION FOR
RECURRENT DEFENSE SPENDING FOR FY1979 IS 198 MILLION
DOLLARS(LAST YEAR TOTAL DEFECT RLJ FRBPC# WAS 201.6

MILLION DOLLARS). DEVELOPMENT EXPENDITURES FOR MILITARY
ARE EXPECTED TO RAISE FIGURE OVER 200 MILLION DOLLARS.
IN ADDITION, AN UNKNOWN BUT REPORTEDLY SUBSTANTIAL
PORTION OF CONSOLIDATED FUND SERVICES BUDGET ITEM IS
FOR DEFENSE RELATED DEBT. OTHER SIGNIFICANT EXPENDI-
TURES WILL BE FOR MINISTRIES OF POWER AND COMMUNICATIONS
(PRIMARILY DEVELOPMENT EXPENDITURES FOR RAILWAYS),
WATER DEVELOPMENT, WORKS, AND AGRICULTURE. EXCEPT FOR
DEFENSE, THEREFORE, EXPENDITURE PATTERN PROJECTED IN
THIS BUDGET IS NOT MARKEDLY DIFFERENT FROM ALLOCATION
TREND OVER THE PAST FEW YEARS.

4. THE BULK OF KIBAKI'S SPEECH DEALT WITH AN UPBEAT
REVIEW OF 1977 ECONOMIC PERFORMANCE, PROPOSALS FOR VARIOUS
REFORMS IN TAX AND FISCAL REGULATIONS, AND FINANCING
OF THE PROJECTED EXPENDITURES. KIBAKI SAID THE H OH#

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NOTE BY OC/T: #AS RECEIVED.

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RATE OF INFLATION, CURRENTLY ABOUT 16 PERCENT, PLACED
CONSTRAINTS ON FINANCING FY1979 EXPENDITURES AND HIGH
LIQUIDITY IN BANKING SYTEM EXPLAINS THE EXTENSIVE
USE OF DOMESTIC CAPITAL MARKET IN FINANCING SCHEME.
CITING DEVELOPMENTS IN COFFEE MARKET, KIBAKI INDICATED
THAT 1978 WOULD BRING A BALANCE OF PAYMENTS DEFICIT
BUT HE DID NOT FORESEE SEVERE DIFFICULTIES UNTIL 1979.

HOWEVER, HE GAVE NO INDICATION OF JUST HOW SERIOUS THE
1979(AND FUTURE) BALANCE OF PAYMENTS OUTLOOK COULD BE
AND OFFERED NO SOLUTIONS BEYOND ECOURAGING AN INCREASE
IN EXPORTS.

5. KIBAKI PROPOSED LEGISLATION WHICH WOULD RESTRICT
THE OPERATIONS OF BRANCHES OF FOREIGN INSURANCE COMPANIES.
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EFFECTIVE JULY 1, NO FOREIGN EXCHANGE WILL BE MADE AVAIL-
ABLE FOR THE INSURANCE OF IMPORTS, FORCING KENYAN
IMPORTERS TO INSURE WITH COMPANIES LICENSED IN KENYA.
KIBAKI PROJECTED THAT THIS SHOULD SAVE GOK APPROXIMATELY
19 MILLION DOLLARS IN FOREIGN EXCHANGE ANNUALLY. HE
ALSO PROPOSED RESTRICTIONS ON RE INSURANCE BUSINESS
TRANSACTED IN KENYA AND ON INVESTMENT OF SURPLUS FUNDS
GENERATED BY INSURANCE COMPANIES.

6. ON THE REVENUE SIDE KIBAKI PROJECTED TOTAL REVENUE
OF 1.7 BILLION DOLLARS LEAVING A DEFICIT OF 100 MILLION
DOLLARS. REVENUES EXPECTED ARE DETAILED BELOW:

BUDGET FINANCING (US DOLLAR MILLIONS)

EXTERNAL REVENUE:	259
UNDRAWN DEVELOPMENT REVENUE	175
COMMERCIAL LOANS	84
LOCAL REVENUE:	1345
NEW TAXATION	35
OTHER TAX REVENUE	1310
STOCK ISSUES:	104
FROM NON-BANK SOURCES	91
FROM COMMERCIAL BANK SUBSCRIPTION	13
TOTAL REVENUE:	1705
DEFICIT TO BE FINANCED	100

ACCORDING TO TREASURY SOURCES, THE DEFICIT IS EXPECTED
TO BE FINANCED FROM EXTERNAL RESOURCES(PRIMARILY
ECONOMIC ASSISTANCE) AND BORROWINGS FROM LOCAL COMMERCIAL
BANKS. TREASURY IS NOT PREDICTING HOW MUCH WILL BE
AVAILABLE FROM EACH OF THESE SOURCES.

7. SOMEWHAT EMBARRASSED, KIBAKI REVEALED THAT GOK HAD
UNDERSPENT 175 MILLION DOLLARS ON DEVELOPMENT IN FY1978
BECAUSE OF DELAYS IN IMPLEMENTING APPROVED PROJECTS.
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HOWEVER, HE WELCOMED THIS SIZEABLE CARRY-OVER INTO FY1979
SINCE IT HELPS TO REDUCE BUDGET DEFICIT FOR THE NEW
FISCAL YEAR. THE 84 MILLION DOLLAR COMMERCIAL LOAN
IS A DRAW DOWN ON PREVIOUSLY NEGOTIATED EXTERNAL LOANS
AND DOES NOT REPRESENT NEW COMMITMENTS BY THE GOK.
THESE WILL BE USED TO FINANCE RAILWAY AND DEFENSE
EQUIPMENT PURCHASES.

8. COMMENT: PROPOSED BUDGET IS FISCALLY MODERATE BY
KEEPING PACE WITH INFLATION AND ORIENTED TOWARD
ADMINISTRATIVE REFORM RATHER THAN RESTRUCTURING OF
EXPENDITURE PATTERNS. IN GENERAL, THE BUDGET PROPOSALS

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HAVE BEEN WELL RECEIVED BY MEDIA AND BUSINESSMEN, ALTHOUGH NEW TAXED WILL HAVE GREATER IMPACT ON LOWER INCOME SEGMENT OF THE POPULATION. THERE APPEARS TO BE GENERAL RELIEF THAT FOOD PRICE INCREASES WERE NOT PROPOSED AND IMPORT DUTIES ON LUXURIES SUCH AS AUTO-MOBILES WERE NOT RAISED. HOWEVER, SOME COMMENTATORS HAVE CRITICIZED GOK FOR NOT RESTRICTING SUCH IMPORTS IN THE FACE OF IMPENDING BALANCE OF PAYMENTS PROBLEMS ALLUDED TO BY KIBAKI.

THE MAJOR SHORTCOMINGS OF THE BUDGET ARE THAT IT PROPOSES NOTHING WHICH WILL HELP ALLEVIATE KENYA'S UPCOMING BALANCE OF PAYMENTS DIFFICULTIES NOR DOES IT ADDRESS THE PROBLEMS OF FINANCING NEW UNBUDGETED MILITARY EXPENDITURES WHICH THE GOK IS NOW CONTEMPLATING AND WHICH WILL SURELY TAKE PLACE. THE FRAGMENTED DATA AVAILABLE AND KIBAKI'S COMMENTS ON FINANCING SUGGEST THERE IS LITTLE ROOM IN THIS BUDGET TO FINANCE INCREASED MILITARY EXPENDITURES WITHOUT SUPPLEMENTAL FUNDS. SHOULD ECONOMIC CONDITIONS DETERIORATE OVER THE NEXT FEW YEARS AS IS EXPECTED, THE RESOURCES NEEDED TO SUPPORT NEW MILITARY PURCHASES CAN ONLY COME AT THE EXPENSE OF OTHER SECTORS OF THE ECONOMY.

9. COPIES OF BUDGET WILL BE FORWARDED WHEN AVAILABLE.
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WE WILL HAVE FURTHER COMMENTS TO OFFER AFTER HAVING CHANCE TO ANALYZE FULL BUDGET PRESENTATION.
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